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SUBJECT: NIGERIAN STOCK EXCHANGE SEEKS USAID PARTNERSHIP

REF: 02 Lagos 01933

1. (U) SUMMARY: The Nigerian Stock Exchange (NSE) seeks USAID assistance to expand its services. The NSE plans to attract more Nigerians and foreign investors to the equities market through greater accessibility and new investment vehicles in derivative markets. The NSE raised the issue of working in partnership with USAID and in particular sought assistance in the areas of hardware and software acquisition and provision of technical assistance and training. USAID is in the process of developing a new five-year strategy to begin in January 2004, and will seek to identify ways of working in partnership with NSE in the context of the new strategy. USAID and NSE will develop terms of reference to conduct an assessment in early 2003 to identify specific areas of partnership. In addition, USTDA is considering a 2003 technical assistance grant to the NSE. END SUMMARY.

2. (U) On October 21, 2002, Econoff attended a meeting between USAID Mission Director Dawn Liberi and Nicholas Okoye of the Nigerian Stock Exchange. Okoye is Technical Adviser to the Director General and CEO of the NSE, and is Head of the newly created Strategy and Derivatives Markets department. Okoye presented a proposal for partnership opportunities between the NSE and USAID, as the NSE continues to improve its IT infrastructure and plans to expand investor services.

3. (U) Okoye reported that the NSE has achieved several important international benchmarks for equities markets, including clearing transactions in three days (T+3 clearance) and the development of a transparent review system whereby reports of companies traded on the exchange are available via the NSE Website. In addition, Okoye reiterated the NSE's ranking by Standard and Poors and the International Financial Corporation (IFC) as third for return on investment among exchanges worldwide and first among emerging markets. (REFTEL). The NSE now plans to attract more investors by creating new investment vehicles targeted toward individuals in Nigeria, institutions both domestic and foreign, and Nigerians living or working abroad. Okoye and the NSE Director General met with representatives of the New York Stock Exchange (NYSE) and the American Stock Exchange (ASE) in May to discuss ways in which the NSE can leverage the expertise and global reach of the US exchanges through technical assistance and training programs. The NSE also hopes the US exchanges will introduce the NSE to key international fund managers who focus on emerging markets.

FOR NIGERIANS AT HOME: INVESTMENT SAVINGS ACCOUNTS

4. (U) Okoye noted that less than three percent of Nigerians are invested in the NSE in any capacity, compared to 75 percent of Americans and 63 percent of European Union citizens who invest in equity markets directly or through mutual funds and retirement plans. To attract more individual investors in Nigeria and leverage the economies of scales of the current nationwide banking system, the NSE plans to partner with banks to develop a new savings entity, the individual investment account. Since Nigerian banks tend to have branches in even small towns throughout Nigeria, the NSE sees a partnership with banks to be a more efficient way to reach individual investors than encouraging stockbrokers to expand their capacity and reach. Individual investment accounts would allow bank depositors to place savings into an account that would purchase shares of an equities portfolio, allowing greater returns than traditional savings accounts. According to Okoye, the 1999 Universal Banking Act permits licensed banks to participate in every aspect of the financial industry, allowing for this sort of partnership between banks and the exchange.

5. (U) To further encourage individual investors to use the stock exchange and to enhance the reliability and

credibility of transactions, the NSE is developing an email system to notify investors of transactions made on their behalf. According to Okoye, in the US an automatically generated confirmation letter notifies each investor when a broker places a trade on his or her behalf. The Nigerian postal system is considered too unreliable for such a system, and thus, trades are currently made without confirmation, known as "selling without a mandate." The NSE is considering the creation of a free email account for each investor in the exchange through which confirmations of trades may be posted. Okoye notes that while few Nigerians have access to computers and the Internet at home or work, many individuals maintain free accounts that they access from cyber cafes, which are quite common throughout the country.

#### FOR INSTITUTIONAL INVESTORS AND NIGERIANS LIVING ABROAD: NEW INVESTMENT VEHICLES IN THE DERIVATIVES MARKETS

16. (U) Okoye estimates that Nigerians living overseas return over three billion dollars annually to Nigeria, often in the form of real estate purchases and investments. However, Okoye states that these individuals are frequently victims of unscrupulous transactions or unreliable construction cost estimates. The NSE believes Nigerians abroad, as well as institutional investors in-country and abroad, are looking for credible and transparent opportunities to invest in Nigeria. As head of the NSE's new derivatives markets department, Okoye highlighted several investment products currently under development. (REFTEL).

17. (U) Okoye states his team is developing an Exchange Traded Fund (ETF). Like the NASDAQ "QQQ," or the American Stock Exchange "SPDR," the ETF will consist of a "basket" of the top 30 or so companies listed on the NSE which will be traded as a single security. The Johannesburg Stock Exchange (JSE) currently has a fund of this nature available. The NSE is also preparing option contracts, which are not currently traded on the NSE. Further, the NSE is exploring whether foreign investors will be more comfortable investing in NSE listed companies through the NYSE and ASE in the form of depository receipts. To attract the Nigerian expat investor, the NSE is developing a real estate investment trust and note product, which will involve the issuance of notes against real estate developments or securities against ongoing rents. Similarly, the NSE is developing oil and gas trust notes. The NSE points out that indigenous energy companies are now positioned to take over "marginal" or low-volume oil fields from major international producers. Most of these are capped-wells, requiring capital investment in flow stations and piping, which can cost 15 to 30 million dollars, according to Okoye. Local banks generally do not provide sufficient lending for such projects, so the NSE believes it can offer investment trusts of sufficient credibility and reliability to attract investors and generate the funding needed to launch these ventures.

#### AREAS FOR POSSIBLE USAID PARTNERSHIP

18. (U) NSE requested USAID assistance with the provision of new hardware and software needed to develop and manage each of the investment vehicles, as well as technical assistance and training in both IT systems and trading aspects of these products. Such IT systems development and new services training will be necessary both for the NSE and a set of Nigerian financial institutions that will become custodial banks to facilitate the derivatives transactions. Okoye states that the NSE would primarily use US made products and consultants for these ventures, including the NYSE and ASE. He notes that the NSE Board of Directors has approved the concept of the exchange acting as a regional clearinghouse for securities transactions involving other African countries. Thomas Briggs of the US Department of Treasury suggested such a concept during a recent tour of Nigeria. Okoye states that the NSE is currently negotiating with a company in Boston to establish and maintain a database to record and call-up transactions for the last 12 years, a necessity if NSE is to become a regional clearinghouse.

19. (U) USAID Mission Director indicated that USAID was developing a new five-year strategy and that collaboration with NSE could be explored within the context of the new strategy. USAID would consult further with NSE and conduct an assessment to identify potential areas of partnership and collaboration. She estimated that such an assessment could take place in early 2003. Additionally, the US Trade and Development Agency is considering a technical assistance

grant to the NSE to upgrade its computer system and develop a secondary trading floor in case of catastrophic failure.

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